Semester VI (program)
Marketing Management
Unit - 5
Distribution channel

Compiled by - Nidhi Sahu
Department of Commerce
Raniganj Girls' College

Concept of Distribution Channel :

A distribution channel (also called a marketing channel) is the path or route decided by the company to deliver its good or service to the customers. The route can be as short as a direct interaction between the company and the customer or can include several interconnected intermediaries like wholesalers, distributors, retailers, etc.
Hence, a distribution channel can also be referred to as a set of interdependent intermediaries that help make a product available to the end customer.

Functions of Distribution Channels:

Following are the main functions performed by the distribution channels:

1. Sorting:

Middlemen obtain the supplies of goods from various suppliers and sort them out into similar groups on the basis of size, quality etc.

2. Accumulation:

In order to ensure a continuous supply of goods, middlemen maintain a large volume of stock.

3. Allocation:

It involves packing of the sorted goods into small marketable lots like 1Kg, 500 gms, 250 gms etc.

4. Assorting:

Middlemen obtain a variety of goods from different manufacturers and provide them to the customers in the combination desired by them. For example, rice from Dehradun & Punjab.

5. Product Promotion:

Sales promotional activities are mostly performed by the producer but sometimes middlemen also participate in these activities like special displays, discounts etc.

6. Negotiation:

Middlemen negotiate the price, quality, guarantee and other related matters about a product with the producer as well as customer.

7. Risk Taking:

Middlemen have to bear the risk of distribution like risk from damage or spoilage of goods etc. when the goods are transported from one place to another or when they are stored in the god-owns.

Types of Distribution Channels:

Broadly, Channel of distribution is of two types viz., (1) Direct Channel (2) Indirect Channel.

1. Direct Channel or Zero Level Channels:

When the producer or the manufacturer directly sells the goods to the customers without involving any middlemen, it is known as direct channel or zero level channel. It is the simplest and the shortest mode of distribution. Selling through post, internet or door to door selling etc. are the examples of this channel. For example, Mc Donalds, Bata, Mail order etc.

Methods of Direct Channel are:

(a) Door to door selling
(b) Internet selling
(c) Mail order selling
(d) Company owned retail outlets
(e) Telemarketing

2. Indirect Channels:

When a manufacturer or a producer employs one or more middlemen to distribute goods, it is known as indirect channel.

Following are the main forms of indirect channels:

(a) Manufacturer-Retailer-Consumer (One Level Channel):

This channel involves the use of one middleman i.e. retailer who in turn sells them to the ultimate customers. It is usually adopted for speciality goods. For example Tata sells its cars through company approved retailers.

<u>Manufacturer→ Retailer→ Consumer</u>

(**<u>b) Manufacturer-Wholesaler-Retailer-Customer (Two level channels):</u>**

Under this channel, wholesaler and retailer act as a link between the manufacturer and the customer. This is the most commonly used channel for distributing goods like soap, rice, wheat, clothes etc.

<u>Manufacturer→ Wholesaler→ Retailer→ Customer</u>

<u>C.Manufacturer-Agent-Wholesaler-Retailer-Consumer (Three level channels):</u>

This level comprises of three middlemen i.e. agent, wholesaler and the retailer. The manufacturers supply the goods to their agents who in turn supply them to wholesalers and retailers. This level is usually used when a manufacturer deal in limited products and yet wants to cover a wide market.

<u>Manufacturer → Agent → Wholesaler → Retailer → Consumer</u>

<u>Factors Determining Choice of Channels of Distribution:</u>

Following are the main factors which help in determining the channels of distribution:

<u>1. Product Related Factors:</u>

Following are the important product related considerations in deciding on channels of distribution:
<u>(a) Nature of Product:</u>
In case of industrial goods like CT scan machine, short channels like zero level channel or first level channel should be preferred because they are usually technical, expensive, made to order and purchased by few buyers. Consumer goods lke LCD, refrigerator can be distributed through long channels as they are less expensive, not technical and frequently purchased.
<u>(b) Perishable and Non- Perishable Products:</u>
Perishable products like fruits or vegetables are distributed through short channels while non perishable products like soaps, oils, sugar, salt etc. require longer channels.
(**<u>c) Value of Product:</u>**
In case of products having low unit value such as groceries, long channels are preferred while those with high unit value such as diamond jewellery short channels are used.
(**<u>d) Product Complexity:</u>**
Short channels are preferred for technically complex goods like industrial or engineering products like machinery, generators like torches while non complex or simple ones can be distributed through long channels.

<u>2. Company Characteristics:</u>

Following are the main Company Characteristics offering choice of channel of distribution:
(a) Financial Strength:
The companies having huge funds at their disposal go for direct distribution. Those without such funds go for indirect channels.
(**b) Control:**
Short channels are used if management wants greater control on the channel members otherwise a company can go in for longer channels.

3**. Competitive Factors:**

Policies and channels selected by the competitors also affect the choice of channels. A company has to decide whether to adopt the same channel as that of its competitor or choose another one. For example, if Nokia has selected a particular channel say Big Bazaars for sale of their hand sets, other firms like Samsung and LG have also selected similar channels.

4. Market Factors:

Following are the important market factors affecting choice of channel of distribution:
(a) Size of Market:
If the number of customers is small like in case of industrial goods, short channels are preferred while if the number of customers is high as in case of convenience goods, long channels are used.
(b**) Geographical Concentration:**
Generally, long channels are used if the consumers are widely spread while if they are concentrated in a small place, short channels can be used.
(**c) Quantity Purchased:**
Long channels are used in case the size of order is small while in case of large orders, direct channel may be used.

5. Environmental Factor:

Economic factors such as economic conditions and legal regulations also play a vital role in selecting channels of distribution. For example, in a depressed economy, generally shorter channels are selected for distribution.

Channel Management Decision :-

The success of any marketing channel lies in the foundation of right channel design decision. But channel design is just the planning part; it needs right implementation to be successful. The implementation can be taken care of, with the help of channel management decisions, it includes right from, selecting a channel member to training them to motivating them and to evaluating them on their performance. In case, the performance is not as expected, the modifications are done by the company in the channel arrangements.

Step # 1. Selecting Channel Members:

The first priority for any company is choosing the right channel members. As the business is dependent upon the marketing channel partners, it becomes crucial for the success of any company to select the best channel partner. All the companies whether it's a product manufacturing company like Colgate or Onida or a service company like IMS or Career Launcher, needs a good channel partner to succeed.
Generally all the companies advertise through newspapers and trade magazines to look out for channel partners. If the company is known and successful, it becomes quite easy for the company to find them. But in the case of a new company launching a new product, then finding a channel partner can be tough. In both the cases, the parameters for choosing a channel partner should be very clear for the company as well as the channel partner.

Step # 2. Training Channel Partners:

Once the channel partner is selected, they need to be trained as they are the face of the company. All the companies have intensive training programmes for its dealers to tell them about their sales and service capabilities, product knowledge, expected service quality and operational procedures to follow. For example, LG Electronics India regularly trains its sub-dealers, direct dealers and service franchisees.
The training tries to facilitate performance, improve knowledge, skills and attitude of its dealers and sales staff. The training is given both through online and offline methods, which covers functional, technical and behavioural aspects.

Step # 3. Motivating Channel Members:

As the channel members are as important as your customers, a company needs to make them happy. Just like anybody, channel members are also needs to be motivated. On the one hand, the company tries to train them for their better performance and on the other hand, the company provides them incentives, higher margins, premiums, display allowances, advertising allowances and special deals.

Step # 4. Evaluating Channel Members:

Channel members are evaluated on the basis of their sales, inventory level, service support, delivery time performance, complaint redressal, promotional program implementation and training performance.
If the performance of the channel member is satisfactory, then it is rewarded for its efforts and if the performance falls below mark, it is advised to make necessary changes in the processes. In case of channel members, where the problems are beyond rectification, they are removed and the company appoints a new channel member.

Step # 5. Modifying Channel Arrangements:

With the changing times, the company needs to modify its channel arrangements. The product line can expand, the consumers buying pattern can change, the new competition can come up, a new distribution channel can emerge or the demand of the product can change by getting into the later stages of product life cycle. All these factors can lead the company to change its channel arrangement.

Comparision between wholesalers and retailers :-

The following given below shows the distinction between wholesalers and retailers :-

1. Wholesalers buy from the manufacturers directly and sales them to the retailers. whereas retailers buy from wholesalers and sales the goods to the consumers.
2. Wholesalers usually sells on credit to the retailers but the retailers sells good to the consumers for cash.
3. Wholesalers are specialise in a particular product, but retailers deals in a different variety of product.
4. Wholesalers buy in bulk quantities from the manufacturers and sell in small quantities to the retailers. Whlie retailers buy in small quantities from the wholesslers and sell in smaller quantities to the ultimate consumer.
5. Wholesalers always deliver the good at the doorstep of the retailers, whereas retailers usually sell at their shops.
6. A wholesalers needs mainly a godown to stock the goods he handles but retailers need a shop or a showroom to sell.
7. A wholesalers goes to different places to supply their goods, but retailers usually sells at a particular place only.

Tools and Techniques of Sales Promotion :-

(1) Rebate:

Under it in order to clear the excess stock, products are offered at some reduced price. For example, giving a rebate by a car manufacturer to the tune of 12,000/- for a limited period of time.

(2) Discount:

Under this method, the customers are offered products on less than the listed price. For example, giving a discount of 30% on the sale of Liberty Shoes. Similarly giving a discount of 50% + 40% by the KOUTONS.

(3) Refunds:

Under this method, some part of the price of an article is refunded to the customer on showing proof of purchase. For example, refunding an amount of 5/- on showing the empty packet of the product priced 100/-.

(4) Product Combination:

Under this method, along with the main product some other product is offered to the customer as a gift.

(5) Quantity Gift:

Under this method, some extra quantity of the main product is passed on as a gift to the customers. For example, 25% extra toothpaste in a packet of 200 gm tooth paste. Similarly, a free gift of one RICH LOOK shirt on the purchase of two shirts.

(6) Instant Draw and Assigned Gift:

Under this method, a customer is asked to scratch a card on the purchase of a product and the name of the product is inscribed thereupon which is immediately offered to the customer as a gift. For example, on buying a car when the card is scratched such gifts are offered – TV, Refrigerator, Computer, Mixer, Dinner Set, Wristwatch, T-shirt, Iron Press, etc.

(7) Lucky Draw :-

Under this method, the customers of a particular product are offered gifts on a fixed date and the winners are decided by the draw of lots. While purchasing the product, the customers are given a coupon with a specific number printed on it.
On the basis of this number alone the buyer claims to have won the gift. For example, 'Buy a bathing soap and get a gold coin' offer can be used under this method.

(8) Usable Benefits:

Under this method, coupons are distributed among the consumers on behalf of the producer. Coupon is a kind of certificate telling that the product mentioned therein can be obtained at special discount.
It means that if a customer has a coupon of some product he will get the discount mentioned therein whenever he buys it. Possession of a coupon motivates the consumer to buy the product, even when he has no need of it.
Such coupons are published in newspapers and magazines. Some companies distribute coupons among its shareholders. Sellers collect the coupons from the customers and get the payment from the company that issues the same.

(9) Full Finance @ 0%:

Under this method, the product is sold and money received in installment at 0% rate of interest. The seller determines the number of installments in which the price of the product will be recovered from the customer. No interest is charged on these installments.

(10) Samples or Sampling:

Under this method, the producer distributes free samples of his product among the consumers. Sales representatives distribute these samples from door-to-door.

This method is used mostly in case of products of daily-use, e.g., Washing Powder, Tea, Toothpaste, etc. Thus, the consumers willy-nilly make use of free sample. If it satisfies them, they buy it and in this way sales are increased.

(11) Contests:

Some producers organise contests with a view to popularizing their products. Consumers taking part in the contest are asked to answer some very simple questions on a form and forward the same to the company. The blank form is made available to that consumer who buys the product first.
Result is declared on the basis of all the forms received by a particular date. Attractive prizes are given to the winners of the contest. Such contests can be organised in different ways.

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